

BELLSOUTH

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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September 9, 1993

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Washington, D.C. 20554

RE: Ex Parte Meeting
CC Docket No. 92-296

Dear Mr. Caton:

On September 9, 1993, F. Duane Ackerman, President and CEO of BellSouth Telecommunications Inc., David J. Markey, Vice President, Governmental Affairs of BellSouth, and Maurice P. Talbot, Jr., Director - Federal Regulatory of BellSouth met with Chairman James H. Quello and Rudy Baca, Legal Advisor to Chairman Quello, to discuss proposals for depreciation simplification in the above-referenced proceeding. The attachment was used to facilitate the discussion. The points discussed by BellSouth are consistent with its comments already on file in this proceeding.

BellSouth requests that this letter and the attachment be included in the public record in this proceeding. Please contact me if you have any questions concerning this matter.

Respectfully submitted,

Maurice P. Talbot, Jr.

Maurice P. Talbot, Jr.
Director - Federal Regulatory

Attachment

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cc: Chairman James H. Quello w/o attachment
Rudy Baca w/o attachment

BELLSOUTH TELECOMMUNICATIONS

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ON

**SIMPLIFICATION OF
DEPRECIATION PRESCRIPTION
CC DOCKET NO. 92-296**

SEPTEMBER 9, 1993

BellSouth Ex Parte

I. Need for Depreciation Simplification

- **Current Process is Costly, Time Consuming and Cumbersome**
- **Depreciation Under Price Caps is Endogenous - but FCC Staff now Controls Depreciation Expense of LECs**
- **The LECs Current Depreciation Rates are Inadequate and will be Unable to Recover Past Investments in the Future under Present Process**
- **Present Depreciation Process is a Disincentive to Robust Investment in the Infrastructure**
- **Depreciation Reserve Deficiencies Continue to Build up in Technology Accounts**
- **LEC Depreciation Rates are far below their Competitors'**

II. Now is Appropriate Time for Depreciation Simplification Because:

- **Telecommunications is Changing Rapidly and Merging Telephone, Computers, Television, Data Transmission and Wireless Communications**
- **Technology Change and Customer Needs are More Rapidly Outdating Embedded Investments**
- **Competition is Threatening the Recovery of the Embedded Investment**
- **Historical Data Cannot Predict Future Trends**

III. USTA Depreciation Simplification Proposal

- **Uses Current Depreciation Methods**
 - **Remaining Life Depreciation Rate Formula**
 - **Straight Line, Equal Life Group (ELG)**
 - **Continuing Vintage Level Property Records**
- **Makes LECs Responsible for Future Depreciation Reserve Deficiencies by Providing LECs the Opportunity to Recover their Investment**

- **Allows Carriers to Select Appropriate Depreciation Rates**
- **Satisfies all 1934 Communications Act Legal Requirements**
- **Reduces Administrative Burdens/Costs**
- **Facilitates Investment in Infrastructure via Risk Reduction To LECs vis-a-vis Other Investments**

IV. Safeguards with USTA Depreciation Simplification Proposal

- **Annual 1st Quarter Depreciation Filing Eliminates Concern Over Earnings Manipulation**
- **Continue to Provide Account Specific Statements for FCC Regulatory Oversight**
- **Price Cap Procedures Require Endogenous Treatment therefore there is No Need to Micromanage Depreciation**
- **Use of Remaining Life Does Not Allow Over-Recovery because it is Self-Correcting**
- **GAAP Provides Professional Standards for Reporting LEC Financials**
- **Continues to Comply with Existing Accounting/Auditing Safeguards**
- **ARMIS Reports Provide Continuing Information to all Parties**

V. Recommendation to FCC

- **Establish a Ruling in FCC Docket 92-296 that adopts the USTA Depreciation Simplification Proposal for all LECs willing to take "Responsibility" for future Reserve Deficiencies**
- **Order the Implementation of the USTA Depreciation Simplification Proposal January 1, 1994**